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General Business Conditions

THE Presidential and Congressional elections have been followed by a flood of conjecture as to the policies to be expected of the new Administration and their effects on business. The first reaction, as seen in the stock market decline, shows that sentiment in that area at least has turned fearful. The reasoning of the market evidently is that new and heavy taxes are likely to be levied on business earnings, that fourth-round wage increases will cut additionally into profit margins, and that price and materials controls may be reinstated. It is concerned lest new labor legislation and regulations disturb progress toward improving man-hour output.

From these premises the conclusion is drawn that both the funds available for business spending and the incentive to go ahead with plant and equipment programs may be diminished. Declining profits would not only reduce spending on capital goods, but would force curtailment by high-cost or marginal producers, now earning barely enough to sustain operations. Hence this line of reasoning leads not only to a lower estimate of prospective earnings, but to a more cautious appraisal of the general outlook.

Probably, also, the feelings of many people are affected by less tangible considerations. They shrink from enlargement of government, the spread of its activity, and its absorption of a greater rather than a lesser share of the country's income. They fear new intervention in areas where management needs freedom of action. They surmise, rightly or wrongly, that these things are implied in some degree by the election.

Conjectures as to Election Effects

Needless to say, this reasoning so far is conjectural. The country does not know yet what proposals will be made to the new Congress, still less what the Congress will adopt or reject, and even less what the overall effects of the Congressional action plus other business influences will be. The premises upon which the stock market has acted are plausible, in view of the program presented to Congress by President Truman last July, but they do not include all the elements which influence business and psychology.

Against the deflationary effect of heavier business taxes may be set the inflationary effects of heavier government spending. Armament expenditures are due to increase. The Government is pouring out money to support farm prices. President Truman frequently has advocated a variety of measures, all costly, including federal aid to education, a federal health insurance system, federal housing and power projects and increased social security benefits. Moreover, a rising volume of federal, state and local public works, highways and institutional building is in prospect.

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To be sure, private demand may fall off more than government demand rises, due to psychological factors or to other deflationary influences. This also, however, is still to be demonstrated. Even before the election many corporations, after building and equipping plants during the past three years, expected to spend less in 1949. A drop in private housing starts was similarly looked for. But in other important cases the capital investment necessary to catch up with population growth and expanding markets, to turn out new products and put new technical processes into operation, and to improve efficiency and reduce costs, still runs into large figures. The industrial organization never can stand still and its capital programs are never complete. Persistence of demand in some parts of the economy, including government spending, tends to support demand in all parts. The public utilities provide an example of programs which go ahead because they are both necessary and profitable.

How these conflicting indications may balance out is a question to which there are as yet only fragmentary and frequently contradictory answers. In any case the projected rise of at least $3 billion in armament disbursements in the fiscal year 1950 will of itself be a powerful offset to any decline in private capital expenditures, and it will have its major impact in the same general field, namely metals and metal products. E.C.A. orders are veering more toward capital goods.

Also, estimates of the construction outlook are hopeful, counting in the expected larger federal and local government outlays. The Department of Commerce predicts that total construction in 1949 will be no greater than this year in physical terms, but up 5 per cent in dollar value, unless there is a business depression. If construction holds at that rate, most people will think a depression unlikely. The Department thinks private construction will be unchanged in dollar value, but expects public construction to be 24 per cent greater. The F. W. Dodge Corporation estimates that 1949 construction, in total value, will be 2½ per cent under 1948. If either estimate is realized, building will give strong support to the general situation.

Farmers and Labor

Finally, conjecture as to the effects of the election should not exclude consumer demand. Policies of the new Administration should tend to support farm spending, for most people think farmers can now count on price supports at higher levels and for a longer time than before election. Probably farm income has passed its peak, but the decline so far is nominal and can hardly be severe while crops are large and supports effective. Liquid assets of farmers — money in the bank and U. S. Savings Bonds — are five times what they were before the war. With these reserves farmers are able to spend current income freely. Meanwhile city people have the benefit of lower food prices, and gain more than the farmers lose because the farmers have more to sell and a market, provided by the Government, for all they produce.

Labor incomes, and the effect of the election upon them, are more difficult to foresee. The general expectation is that wage rates will rise again. If the markets can support the increases, and they are passed on in prices without reducing sales, the situation will be the same as in earlier turns of the wage-price spiral. Dollar incomes will be higher, prices higher and production sustained. Inflation will take on new life. But if filled-up pipelines, lagging incomes of white collar and other groups, or temporary saturation of consumer requirements in specific lines, should prevent passing on the higher costs to consumers, the results must be different. Then the higher costs would reduce and in some cases wipe out profits. In the lines affected production would suffer and labor would give up through greater unemployment the seeming gains it achieves through higher rates. Many fear this outcome. The general economic situation, which determines the intensity of demand upon the industries, will be controlling.

These are some of the considerations in the outlook. The mixture of inflationary and deflationary influences is complex. To many observers the forces pulling up and down will seem pretty much in balance. But hesitation is the natural response to uncertainty, while the situation develops.

Meanwhile, it is in order to point out the inconsistency in the fear that there will be a business recession and price decline, and at the same time reestablishment of price and other controls. The contradiction is self-evident. The arguments offered in Washington for controls rest on the assumption that the inflationary forces loosed by government spending will outweigh the deflationary forces elsewhere.

Chairman Nourse of the Council of Economic Advisers, among others, warns that if the projected $15 billion for defense in the 1950 fiscal year (which is $3 billion above fiscal '49) should

be raised to $18 to $20 billion, control of prices, materials and labor and very severe taxation would be needed to stop a renewed inflationary upsurge. By turning Dr. Nourse's statement around, a business forecast is derived. The implication is that in his view defense expenditures of $15 billion will maintain the economy at full production and full employment; and $15 billion is conceded to be the minimum defense figure.

The Durable Goods Boom

Since most discussion since the election has related to the effects on business spending and the markets for durable goods, it is appropriate to examine the present volume of durable goods sales and consider some of its implications. The following table compiles figures, taken from various sources, on expenditures for new durable goods for each of the past thirty years. It will be seen that the grand total of private and public spending in this field in 1948 is estimated at $57 billion, an increase of some 15 per cent over the 1947 figure of $49.3 billion, and of 57 per cent over the 1946 figure of $36.3 billion. Prior to 1941, the largest figure ever reached was $25.5 billion, in 1929.

Further inspection of the figures will show the tremendous declines that occurred during the depression, with a bottom of $7.6 billion in 1933, and another decline during the war in most categories except the public spending for war purposes. Thus over two periods during the past twenty years, one of long duration and the other shorter, durable goods spending was clearly subnormal. Shortages in many lines were created, and a huge backlog of replacement demands was accumulated and deferred.

Expenditures for New Durable Goods
(In Billions of Dollars)

	Private							
	Producers Plant & Equip.	Consumers Hous'g	Consumers Durable Goods	Consumers Total	Institutional	Total Private	Total Public	Total Private & Public
1919	7.1	1.8	5.5	7.3	0.2	14.5	0.9	15.5
1920	8.3	1.7	6.4	8.2	0.2	16.7	1.2	17.9
1921	5.2	2.0	5.1	7.1	0.3	12.6	1.5	14.1
1922	5.8	3.4	5.7	9.1	0.4	15.3	1.7	16.9
1923	7.9	4.4	7.3	11.7	0.4	20.0	1.6	21.6
1924	7.7	4.8	7.2	11.9	0.5	20.0	1.9	21.9
1925	8.2	5.1	7.8	12.9	0.6	21.7	2.1	23.8
1926	9.1	4.8	8.5	13.4	0.7	23.2	2.1	25.3
1927	8.8	4.6	8.1	12.7	0.7	22.2	2.4	24.6
1928	8.8	4.4	8.6	12.9	0.7	22.5	2.5	24.9
1929	10.2	3.2	9.2	12.4	0.6	23.1	2.4	25.5
1930	8.3	1.8	7.0	8.9	0.5	17.7	2.8	20.4
1931	5.1	1.4	5.3	6.7	0.4	12.2	2.6	14.8
1932	2.8	0.5	3.3	3.9	0.2	6.9	1.8	8.7
1933	2.4	0.4	3.4	3.8	0.1	6.3	1.3	7.6
1934	3.4	0.4	4.4	4.8	0.1	8.3	2.0	10.4
1935	4.3	0.8	5.5	6.4	0.1	10.8	1.8	12.6
1936	5.8	1.4	7.1	8.4	0.2	14.4	3.3	17.7
1937	7.6	1.7	7.7	9.5	0.2	17.2	2.8	20.0
1938	5.4	1.6	5.8	7.4	0.2	13.1	3.4	16.4
1939	6.1	2.2	6.7	8.9	0.2	15.2	3.4	18.6
1940	7.5	2.5	7.9	10.4	0.2	18.1	3.6	21.7
1941	9.5	2.9	9.8	12.7	0.2	22.4	6.7	29.1
1942	7.3	1.4	6.8	8.2	0.1	15.6	13.8	29.4
1943	5.5	0.8	6.5	7.3	—	12.8	9.2	22.0
1944	6.6	0.7	6.9	7.6	0.1	14.3	3.6	17.9
1945	8.0	0.8	8.3	9.1	0.1	17.2	3.1	20.3
1946	14.1	3.4	16.2	19.6	0.4	34.1	2.2	36.3
1947	19.2	5.5	21.0	26.5	0.5	46.2	3.1	49.3
1948 est.	22.0	7.5	22.5	30.0	0.8	52.8	4.2	57.0

Sources: Federal Reserve Bulletin; Securities and Exchange Commission; Department of Commerce; Department of Agriculture. Estimates for 1948 based on reports to date.

For three years the country has been trying to catch up with those needs. As far as it could it has tried to catch up with them all at once. Producers have strained every effort to satisfy the requirements and have made a magnificent record. The demand, however, has been insatiable. The excess of demand over supply has created a boom, in which the evils which accompany booms have shown themselves. Prices and wages have been forced up. The productivity of labor in many cases has been low, featherbedding and waste have thrived, costs have been excessive particularly in building, and gray markets with practices which shock the public conscience have sprung up. The expenditures tabulated have exceeded the rate of saving for the purpose, and have caused an inflationary credit expansion. In all these respects the concentration of demand for durable goods, above what could be satisfied, has been a powerful inflationary force; and in recent months, since supplies of soft goods generally have caught up with demand, it may fairly be called the strongest influence carrying on the inflation.

Meantime, the rush to satisfy wants all at once is taking something away from future markets for these products. By definition, they have a long life. No great study of the foregoing table is needed to show that while in many of the past eighteen years the expenditure on durables has been distinctly below the normal rate of growth, during the past year or two it has almost certainly been above a normal rate. In the long run this presumably will be compensated for by a decline to a subnormal rate once again. This is the familiar cycle.

Against this background it would seem that some weakening of the intensity of demand for the durable goods which are still under pressure could be contemplated without much alarm. A spreading out of demand would benefit both individuals and the general situation. Buyers who are willing to wait for the things that are still short can expect to buy them more cheaply. If the rebuilding of industry, the re-housing of people, and the other things we are trying to do all

at once can be done over a longer period, it is safe to say that it will be done more efficiently, and at lower cost. A future benefit would be realized by holding off the excess of demand until the time comes when the industries are again in need of orders and their workers in need of employment.

It should of course be said that personal saving, and expenditures on producers' plant and equipment, on housing, on transportation facilities and other things of long life, will benefit the country more in the long run than if people use the money for extravagant immediate consumption. All economic progress depends in the end upon investment in plant and machinery, and upon the expansion of facilities for more efficient and economical production and distribution. Our historical progress in raising living standards never could have been accomplished without immense and continuing heavy investment in capital goods. Nevertheless, there is a problem of short-run congestion as well as long-run desirability. We want to go ahead as fast as can wisely be done, but with an eye to the consequences of trying to go too fast.

Retail Trade Slackens

In the detailed business news of the month the disappointing returns from retail trade take the foremost place. Department store sales for the last four weeks reported have run 8 to 9 per cent below a year ago, and have shown much less than the usual seasonal increase over the October figures. Mail order sales also show a slackening. In view of the sustained high level of employment and income, the explanation for the drop is hard to find. Merchants hope that unseasonally warm weather has had much to do with it, since there has been little reason to rush purchases of heavy clothing. They also hope that what is happening is a return to pre-war habits in holiday buying. During the years of merchandise shortages people bought earlier than usual; this year less of the business may be done in November, and more in December.

If these are the main factors December may bring a different story. However, merchants suspect there is more to the decline than these two influences. Mark-down sales bring excellent results, suggesting that consumers, with less urgent needs, are putting up stiffer resistance to the high prices. In any case the average of November and December business will hardly come up to expectations. Merchants will sell their goods, but on smaller margins and at greater promotion expense; they may have larger stocks January 1 than they had counted on, and they can be expected to continue conservative in making commitments.

Otherwise the day to day reports have not varied greatly from earlier months. The evidences of softening in non-durable goods, and in some consumers' durables as well, have been offset by continued strength in most heavy lines. The price trend has averaged about sideways, with the metals on the strong side and an irregular downward movement in farm products. Cattle and hogs are lower, reflecting the seasonal rise in slaughter. Cocoa and rubber have declined. But there seems to be no end to the pressure on the metals markets. The steel situation is described almost everywhere as increasingly tight, a strike has cut discouragingly into copper production, and the zinc price has risen again.

Going back to October the volume of industrial production, as measured by the Federal Reserve Board's index, reached a new peacetime high at 195 (1935-39 = 100). Total employment, aggregating 60,134,000, was 930,000 greater than a year earlier, and of course the highest on record for the month. It should not be overlooked that some of the soft spots which have attracted attention in November were present also in October, when these records were established. Production of textiles and leather products was down. Coal output was 7 per cent below last year. On the other hand, iron and steel output was at a record, and has been still higher in November. Automobile production reached a new postwar peak. Although building contract awards and the number of residential starts have declined, the value of new construction put in place in October was off very little from the seasonal peak, and was above a year ago by some 13 per cent.

Despite the softening in specific industries and the re-emergence of problems characteristic of buyers' rather than sellers' markets, in overall terms the economy is operating at full production, full employment, and under considerable momentum. It is also influenced by a good many factors making for stability at the high level, at least for some time to come.

Bond Market Rallies

A development of major significance in November was an abrupt termination of the second great wave of selling of government bonds and a substantial cessation of Federal Reserve activities to keep their prices up to predetermined minimum levels. So swift was the change in sentiment

that at times during November the entire government bond list was up off the established price pegs and the Federal Reserve Banks, which had bought $4¾ billion long-term government bonds from June 23 through November 10, found it possible to sell small amounts of bonds previously acquired in price support operations. Thus the much-debated question whether the authorities could, would, and should maintain the pegs ceased for the time being to be an active issue.

The fact that a drop in the pegs had been widely discounted itself provided the technical basis for a recovery. A number of bank and non-bank holders were in an "oversold" position on bonds — that is had shifted from long to short. The psychological spark for the change in sentiment was provided by the election results, which were generally interpreted to mean that there would be no change in the policy, in force for the last year, of guaranteeing prices of par or better to holders of marketable government bonds. Talk of higher income taxes provided an independent stimulus to demand for partially tax exempt U. S. government, and fully tax exempt state and municipal obligations.

The announcement by the Secretary of the Treasury November 16 — several weeks earlier than necessary — of the decision to keep a 1¼ per cent rate on the January 1 certificate refundings lent support to a feeling that the authorities were pointedly adopting a wait-and-see attitude on business and credit trends before taking any further measures to restrict the supply of credit. Under the circumstances, observers were inclined to discount the possibility that further increases in bank reserve requirements would be ordered, a step which almost inevitably would provoke further selling of government bonds and pressure against the pegs.

The triple threat to business in price controls, higher wages, and higher taxes, has given occasion to second thoughts on business expansion plans and means of financing. Until the general outlook becomes clearer, the pressure for funds is somewhat lightened.

The rally in the government bond market was more the result of a decline in offerings rather than an increase in demand although some investors replaced bonds previously sold. Bonds without ownership restrictions — the so-called "bank eligibles" — were favored. The restricted War Loan issues, of which the Victory Loan 2½s are the bell-wether, clung close to their official support prices and required some intermittent support from the authorities. The table below compares quotations for selected issues of government securities on November 30 and the highest points reached during November with the quotations at the close of October and at the peaks of the price rally last spring:

Prices on Selected U. S. Treasury Bonds

(Bid quotations in points and 32nds of a point)

Bank Eligibles	Spring peaks	Oct. 29	Nov. peaks	Nov. 30
2s Dec. 1952-54	101–31	100–31	101–5	101–4
2¼s Sept. 1956-59	103–9	101–6	102–6	102
2½s Sept. 1967-72	102–31	101	101–25	101–18
2⅞s Mar. 1955-60*	109–14	106–30	107–30	107–30
2¾s Dec. 1960-65*	110–26	107–24	109–2	109
Restricteds				
2¼s June 1959-62	100–20	100	100–1	100
2½s Dec. 1967-72	100–27	100–8	100–12	100–8

*Partially tax-exempt.
Boldface type indicates official support levels.

As the following table shows, the second great wave of bond liquidation, July through November 10, wound up with a total of $4¾ billion long-term bonds (maturing after September 15, 1953) taken into the Federal Reserve Banks' government securities account. In the first wave, November, 1947 through March, 1948, the Federal Reserve Banks bought $4.1 billion long-term governments and Treasury agencies and trust funds an additional $1.2 billion for an overall total of $5¼ billion.

Official Bond Price Support Operations

(In Millions of Dollars)

Period	Changes in holdings of bonds maturing after September 15, 1953: Government agencies and trust funds	Federal Reserve Banks	Total
November, 1947 through March, 1948	+1,227	+4,129	+5,356
April through June	— 61	— 19	— 80
July through Nov. 10	+ 20e	+4,749	+4,769
Nov. 10 to Nov. 24	*	— 55	— 55

e Estimated. * Not available.

The Church versus Capitalism

The assembly of the newly-founded World Council of Churches, meeting in Amsterdam three months ago, attracted considerable attention for its condemnation of both the communistic and capitalistic "ideologies". The report in which these views were expressed, entitled "The Church and the Disorder of Society," and commended to the churches "for their serious consideration and appropriate action," has recently been made available in final form. The Council is composed of numerous Christian churches and includes many, but not all, of the leading Protestant denominations of Europe and America. The report referred to, one in a series of four that were adopted by the assembly, takes vigorous issue at the very outset with communism:

The world today (the report states) is experiencing a social crisis of unparalleled proportions. The deepest root of that disorder is the refusal of men to see and admit that their responsibility to God stands over and above their loyalty to any earthly community and their obedience to any worldly power.

Thus the conflict between Christianity and what the report calls "the atheistic Marxian communism of our day" is quite obvious. A man can hardly be, at one and the same time, a Christian and a believer in the Marxian doctrine that religion is the sign of the oppressed creature, "the opium of the people."

The points of conflict between Christianity and communism are specified in the report as follows:

(1) the communist promise of what amounts to a complete redemption of man in history; (2) the belief that a particular class by virtue of its role as the bearer of a new order is free from the sins and ambiguities that Christians believe to be characteristic of all human existence; (3) the materialistic and deterministic teachings, however they may be qualified, that are incompatible with belief in God and with the Christian view of man as a person, made in God's image and responsible to Him; (4) the ruthless methods of communists in dealing with their opponents; (5) the demand of the party on its members for an exclusive and unqualified loyalty which belongs only to God, and the coercive policies of communist dictatorship in controlling every aspect of life.

The Church should seek to resist the extension of any system, that not only includes oppressive elements but fails to provide any means by which the victims of oppression may criticize or act to correct it. It is a part of the mission of the Church to raise its voice of protest wherever men are the victims of terror, wherever they are denied such fundamental human rights as the right to be secure against arbitrary arrest, and wherever governments use torture and cruel punishments to intimidate the consciences of men.

On the other hand, the report has one or two kind words to say for communism. Communism is referred to as "a vision of human equality and universal brotherhood" and it is indicated that while capitalism gives men freedom, communism gives them "justice."

The sections of the report that attracted most attention were its criticisms of capitalism. Four specific counts of conflict with capitalism are stated:

The Church should make clear that there are conflicts between Christianity and capitalism. The developments of capitalism vary from country to country and often the exploitation of the workers that was characteristic of early capitalism has been corrected in considerable measure by the influence of trade unions, social legislation and responsible management. But (1) capitalism tends to subordinate what should be the primary task of any economy — the meeting of human needs — to the economic advantages of those who have most power over its institutions. (2) It tends to produce serious inequalities. (3) It has developed a practical form of materialism in western nations in spite of their Christian background, for it has placed the greatest emphasis upon success in making money. (4) It has also kept the people of capitalist countries subject to a kind of fate which has taken the form of such social catastrophes as mass unemployment.

If then, both capitalism and communism are to be rejected, what is the choice? To this the report gives no unequivocal answer, though the hint is constant and compelling that some new kind of socialism is favored. "The most that the Church can do," the introduction to the report states, "is to warn against opposite dangers and stimulate its members to experiment in concrete situations within the area marked by the rejection of these opposite extremes."

Indictments of Capitalism

The report lists four indictments of capitalism and they are worthy of analysis inasmuch as they state ideas we often hear repeated and are undoubtedly believed by many people.

The first charge is that "capitalism tends to subordinate . . . the meeting of human needs to the economic advantages of those who have most power over its institutions." But capitalistic production goes nowhere except to satisfy human needs and wants. The most marvelous achievement under capitalism has been the development of the mass market, putting more and more kinds of goods within reach of more and more people until the luxury of yesterday becomes the common possession of today. Nowhere, save under capitalism, is so much enjoyed by so many.

With one-sixteenth of the world's population, located in the United States, producing almost one-third of the world's goods, as recently pointed out by Harold E. Stassen, what is this if not evidence of the effectiveness of capitalism in "meeting human needs"?

The second indictment of capitalism is that it "tends to produce serious inequalities." Assuredly there are inequalities under capitalism, inequalities which reflect the opportunities afforded in a free society for men to exercise their unequal talents and ambitions and to take risks in a competition for advancement. But inequalities are not a unique feature of capitalism. Inequalities in Russia, observers have reported, are greater than in the United States and indeed it would take a search far and wide to find a society of equality. And would men want it if they could have it? If people want equality how can one explain the passion for lotteries and pools in the socialistic state?

The lust to share the property of one's neighbor — to seize the material wealth of the successful — is something else again. It has been used many times in Europe to kindle discontent, greed, revolution, bloodshed, and anarchy. But the substitution of new masters for the old, not equality, has come as the end result.

In America the thing that is most striking is not so much that successful men of business, as in the more spectacular examples of Carnegie, Ford, and Rockefeller, have made so much money but rather that the major portion of what they made has gone, not for personal enjoyments, but for more and better tools of production and into schools and colleges and museums and churches and libraries and hospitals for the benefit of all. Is there not here a practical demonstration of the Christian precept that it is more blessed to give than to receive?

The third indictment is that capitalism "has developed a practical form of materialism in western nations in spite of their Christian background, for it has placed the greatest emphasis upon success in making money." That there is truth in this is beyond much doubt. Contests for higher wages and higher profits are ubiquitous, doubtlessly inevitable parts of the competitive process where each "capitalist," large or small, wants more of the material comforts of life.

Yet however we may decry materialism and money-making, we should not go so far as to overlook that the whole society including the churches — indeed life itself — cannot go on without the fuel of material things, and money is simply a common denominator that may permit a man freedom of choice including freedom to practice generosity.

The report is itself on strictly material grounds, for example, when it affirms that "justice demands that the inhabitants of Asia and Africa . . . should have benefits of more machine production," and again when it deplores "serious inequalities" to condemn capitalism.

Material considerations, indeed, form the essential basis for the appeals of communism and of socialism. Is it *good* when a government hands out the rations and directs men what they must do to earn them but *bad* when a man goes out and earns them for himself in an occupation of his own choosing?

The fourth indictment of capitalism is that it has "kept the people . . . subject to a kind of fate which has taken the form of such social catastrophes as mass unemployment." But are "social catastrophes" peculiar to capitalism? No one has yet proved that catastrophe can be avoided with socialism — or with State planning for full employment. Hitler and Mussolini had full employment for a time. Others have shown that it can be done, up to a point and for a time. But the method has been inflation or compulsion, if not both.

There is no questioning the fact that in highly developed societies, which enjoy many luxuries, the normal fluctuations of human sentiment — of optimism and pessimism — have a wider range to work in. The difference between good times and bad in a primitive society is simply a matter of whether the crops are good or bad. That socialism or communism can succeed in raising standards of living generally, as in capitalistic countries, is a theory still unproved. Such systems have never lasted long enough without blowing up to provide a demonstration.

Admittedly, the avoidance of periods of alternating booms and depressions remains one of our major problems. But there is, in the record, no reason to assume that capitalism is less able to cope with this problem than some other type of society.

Subordination of "Cherished Rights"

All through the report the reader is perplexed as to the views of the writers in their attempt to harmonize a sound conception of the worth of the individual with rather vague notions about the economic organization of society. For example, they say:

> On the one hand we must vindicate the supremacy of persons over purely technical considerations by subordinating all economic processes and cherished rights to the needs of the community as a whole. On the other hand, we must preserve the possibility of a satisfying life for "little men in big societies." We must prevent abuse of authority and keep open as wide a sphere as possible in which men can have direct and responsible relations with each other as persons.

With the last part of this most Americans would firmly agree. But — going back to the first sentence — one is bound to ask the question as to what kind of "supremacy" the individual gains when he gives up "cherished rights" to "the needs of the community as a whole?" In the United States the cherished rights of the individual stand as the pillars of the Declaration of Independence and the Constitution — rights to freedom of religion, of speech and the press, rights of the people to security in their persons and property.

There is a large question how far any one of these rights can be compromised or given up

without losing them all. They have been gained and have been maintained at great cost in lives and in things material. In the American heritage they are immensely more important than the physical comforts of life the prophets of socialism and communism promise to men who will give them up.

Problem of Financing Local Governments

Among the many problems arisen since the war to plague the American people one that comes close to home to every individual has been that of providing the funds to pay for those functions of government which serve us, so to speak, at our own doorstep.

In contrast with the vast sums collected by the Federal Government in taxes, which go to finance an enormous conglomerate of far-flung expenditures from which the individual may see little direct or immediate benefit, money collected in local taxes goes overwhelmingly for community public services that the people know about as part of their every-day experience—the local fire and police departments, collection and disposal of refuse, maintenance of the schools, upkeep of the streets, parks and playgrounds, etc. A strong sense of community responsibility in these matters has been traditional in this country, and is one of the essential elements of our democracy.

Squeeze of Local Governments

With the higher level of prices and costs since the war, local governments everywhere face increasing difficulties in raising their tax revenues sufficiently to meet their budgets for operation and capital improvement. These expenditures have been expanded by three factors: (1) the general rise in wages and in cost of fuel, supplies, equipment, and new construction; (2) accumulation of normal maintenance and new building that was deferred during wartime; and (3) growth in population, marriages, and number of homes, and particularly in number of young children who have reached or are approaching school age. To meet these mounting costs, most local governments have raised their tax rates, and also endeavored to tap other sources of tax revenue, but both steps have encountered obstacles.

Local governments derive more than half of their revenues from taxes upon real property, which in many sections is already taxed at high rates. Many cities and towns are restricted by statutory limitations as to the maximum tax rate that can be levied on property. This has made it hard to follow a pay-as-you-go policy, and at the same time provide adequate local government services, with salaries to teachers and other municipal employes that make allowance for the rise in living costs and that are comparable with the compensation in other lines of work. In some critical instances, where neither further increases in taxes nor borrowing was possible, the communities have been forced to hold up salary payments of municipal employes, to close some of their schools, and to curtail other essential services, as well as to forego urgently needed repairs and additions to buildings and equipment.

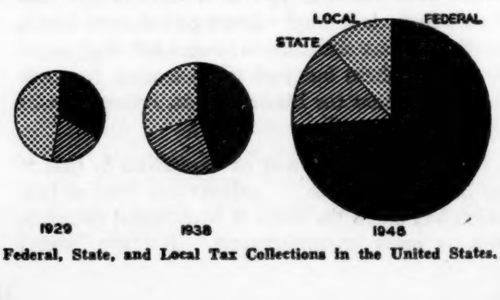
Yet wherever local governments turn to the alternative of imposing new types of taxes, they find that the Federal Government and the States got there first. In particular, the enormous growth of federal expenditures has been accompanied by a spreading of federal taxation into more and more different sources of revenue. Going back all the way to the establishment of the federal income tax, by constitutional amendment, thirty-five years ago, the Federal Government has increased its total tax take tremendously not only by exploiting this tax source to the hilt but by reaching out into numerous new fields through a variety of payroll taxes, excise taxes, estate taxes, gift taxes, etc. Today the sum-total of federal, state, and local taxes has risen, as shown by the accompanying table, to the staggering figure of $54 billion, compared with $15 billion in 1938, and $10 billion in 1929.

Tax Collections in the United States
(In Billions of Dollars)

Year	Federal	State	Local	Total
1929	$3.3	$2.0	$4.8	$10.1
1938	6.9	3.8	4.6	15.3
1948*	40.0	7.9	6.0	53.9

*Partly estimated.

It will be seen that of the overall total of $54 billion taxes collected from the people in every locality of the country, $40 billion, or approximately three-quarters, goes to the Federal Government. The 48 States get 15 per cent, leaving



Federal, State, and Local Tax Collections in the United States.

for the local governments—counties, cities, towns, villages, townships, school districts, and other sub-divisions, altogether numbering over 155,000 —only 11 per cent.

The steady march of the Federal Government in preempting the sources of tax revenue is illustrated by the expanding black area of the "pie" charts covering the years 1929, 1938, and 1948.

To be sure, a substantial share of state taxes is allocated directly to the use of municipalities and school districts, but most of the federal tax collections, comprising the bulk of the total revenue, are distributed to the localities only indirectly through government payrolls and material purchases. Although the federal spending tends to swell the general volume of business, and thus helps local tax collections, such federal disbursements are not directly subject to real estate taxes upon which local governments so heavily rely. Nor is the widespread ownership of property by the Federal Government subject to state or local taxes.

Scope of Federal Taxes

It is doubtful if the public generally realizes either the present scope of federal taxes, or the extent to which rates have been raised and provisions tightened during recent years.

Since 1929 there have been twenty major revisions in the revenue law. Rates on certain items are raised, and on others lowered; new items are made subject to tax, and others released from tax; exemptions are changed, and regulations modified. The accompanying condensed summary indicates the general trend of representative federal taxes, but the figures given are not in all cases strictly comparable because of countless technical changes, exceptions, and qualifications.

A glance at the table will suggest how federal taxes strike from every angle. If a corporation makes any net income, it pays an income tax, and if it loses money, it still has the payroll and various other taxes. Wages and salaries paid to employes are subject to personal taxes. If the corporate income is passed on to shareholders, such income in the form of dividends is again taxed.

Not so many years ago excise taxes were limited to tobacco and alcoholic beverages. Now everyone pays excise taxes directly or indirectly, unless he avoids purchasing goods or services — ranging from transportation and telephone calls to radios, mechanical refrigerators, and matches. The so-called "luxury tax" of 20 per cent on "toilet preparations" applies not only to cosmetics considered indispensable by women, but to such items as

Comparison of Federal Tax Rates

Personal income tax	1929	1938	1948*
Personal exemption	$1,500	$1,000	$600
Normal tax rate	1½–4%	4%	3%
Surtax begins at	10,000	4,000	600
Surtax rate	1–20%	4–75%	17–88%
*Combined total of normal tax and surtax subject to reduction, ranging from 17% in lowest bracket to 9¾% in highest.			
Corporate income tax			
Combined normal and surtax	11%	19%	38%
Payroll tax			
Old-age insurance—employes	—	1%*	1%*
Old-age insurance—employers	—	1%*	1%*
Unemployment ins.—employers	—	3%	3%*
*On first $3,000.			
Estate tax-a			
Specific exemption	100,000	40,000-b	60,000-c
Minimum rate	1%	2%	3%
Minimum applies to first	50,000	10,000	5,000
Maximum rate	20%	70%	77%
a Exclusive of "Basic Estate Tax" which is largely offset by credit against state inheritance taxes. b Excluding $40,000 life insurance. c Including life insurance.			
Gift tax			
Specific exemption	—	40,000	30,000
Minimum rate	—	1½%	2¼%
Minimum applies to first	—	10,000	5,000
Maximum rate	—	52½%	57¾%
Excise taxes			
Distilled liquors, per gallon	$1.10	$2.25	$9.00
Fermented malt liquors, per barrel	6.00	5.00	8.00
Still wines (14-21% alch.) per gal.	0.10	0.10	0.60
Cigarettes, per 1,000	3.00	3.00	3.50
Cigars (8-15c), per 1,000	5.00	5.00	10.00
Tobacco and snuff, per lb.	0.18	0.18	0.18
Admissions	10%-a	10%-b	20%
Cabarets, roof gardens, etc.	15%	15%	30%
Dues, membership fees	10%	10%	20%
Transportation of persons	—	—	15%
Transportation of property	—	—	3%
Transportation, oil by pipeline	—	4%	4½%
Automobiles	3%	3%	7%
Rubber tires, per lb.	—	4c	5c
Gasoline, per gallon	—	1c	1½c
Telephone service, local	—	—	15%
Telephone, long distance calls	—	10c	25%
Telegraph, cable, radio	—	5%	25%
Electrical energy	—	3%	3 1/3%
Light bulbs and tubes	—	—	20%
Sporting goods	—	—	10%
Playing cards, per package	10c	10c	13c
Bowling alleys, year per alley	—	—	20.00
Billiard, pool tables, year per table	—	—	20.00
Furs	—	—	20%
Jewelry	—	—	20%
Luggage, handbags, etc.	—	—	20%
Matches, per 1,000	—	2c	2c
Mechanical refrigerators	—	5%	10%
Business and store machines	—	—	10%
Photographic apparatus	—	—	25%
Photographic film	—	—	15%
Radio receiving sets	—	5%	10%
Toilet preparations	—	—	20%

a Only on tickets over $3.00. b Only on tickets over 40c.

shaving lotion and baby oil. If a businessman buys a brief-case to carry his troubles home, and a schoolgirl buys a handbag to carry her books and lunch, they pay a 20 per cent tax. If a typewriter is purchased to fill in tax returns or questionnaires, it is subject to a 10 per cent tax. If one goes out of an evening for bowling or to a movie, an excise tax must be paid, but if one stays home there is a federal tax not only on the electrical energy used, but even on the light bulb. If the person dies there is a tax on the estate, which cannot be avoided by a transfer in anticipation of death, since there is also a tax on gifts.

Besides these federal taxes, there is a multiplicity and overlapping of state and local taxes, so that much of the income of the country is taxed several times in the course of its receipt and spending. Thirty-one States now collect an income tax, and some do not allow credit for the federal income tax paid, but levy a tax upon a tax. The same is true of many retail sales taxes.

Taxes in Montgomery County, Ohio

The soaring burden of federal taxation, coupled with the critical problem of finding the additional revenues needed for local government needs, prompted citizens of Dayton, Ohio, to make a survey this year for the purpose of ascertaining as closely as possible the total amount of money collected from the public of Montgomery County (in which Dayton is located) by all agencies of government, federal, state, and local. The investigation was conducted with the cooperation and assistance of the County Auditor's Office, the City Finance Department, and the Clerk-Treasurer of the Board of Education. Its findings for the year 1947 are summarized as follows:

Tax Collections in Montgomery County, Ohio in 1947

Federal collections*	
Individual income tax	$120,400,000
Corporation income tax	48,000,000
All other	6,400,000
Total federal	174.800,000
State collections	
Sales and use tax	8,412,900
Gasoline tax	3,500,000
Auto licenses	1,350,000
Unemployment compensation	3,122,000
Workmen's compensation	2,200,000
Liquor taxes	2,420,000
All other	3,971,500
Total state	24,976,400
Local collections	
School districts	6,846,000
Municipalities	5,716,000
County	3,889,000
Libraries	348,000
Townships	307,000
Total local	17,106,000
Grand Total	$216,882,400

*Since county figures of federal collections are unavailable, estimates were made from the 1st Ohio District figures (actual) on the basis of population indices and social security data on employment, taxable payrolls, and number of establishments.

As the table shows, total tax collections from all sources in Montgomery County amounted to more than $216,000,000, which, on the basis of a 375,000 population, means an average of approximately $578.00 tax collections per person. Of this total tax take, the Federal Government got the lion's share, with 81 per cent. The State of Ohio came a poor second with 11 per cent; with the local governments (City of Dayton, Montgomery County, Dayton School District) trailing still further behind with only 8 per cent.

When people learn how large a proportion of their taxes goes to pay for the obligations and commitments in Washington for expenditures not only in this country but all over the world, they must realize that federal spending is not an academic subject but one that calls for a much better accounting of the money — the same as would be expected of the local school board.

In considering the Montgomery County figures, it must of course be recognized that many corporations pay income taxes in the Dayton district where their head office is located, but derive revenues also from branches located in other parts of the country, as well as from export sales. On the other hand, other corporations which do business in Dayton, pay income taxes elsewhere, so that the factor of geographical location of head office tends in considerable measure to cancel out. In addition, such companies are subject to local taxes wherever they operate.

What To Do?

The problem in Dayton is typical of that facing local governments in every part of the country, although naturally the situation in each community differs as to the requirements, and as to the capacity of its people to pay.

In a number of States the problem has been attacked energetically, with organized efforts to broaden the base and improve the distribution of state and local tax revenues. New York State, for example, has a long history of effective cooperation along this line.

Much promising work on intergovernmental finance has been done elsewhere by committees of public officials and representatives of numerous interested groups. Valuable leadership and technical assistance have been given by such organizations as the Council of State Governments, Conference of State Governors, U. S. Conference of Mayors, International City Managers' Associations, National Municipal League, Tax Foundation, Tax Institute, and by taxpayers' associations, chambers of commerce, universities and colleges, and others throughout the country. The U. S. Treasury Department, through its Division of Tax Research, has made periodic studies of overlapping taxation, while the U. S. Department of Commerce, through its Bureau of the Census, has expanded and made more current its official tabulations and analyses of state and local government finances.

Important as is the question of tax distribution, what is needed is not a mere reshuffling of taxes, but a reduction of the total. Here the real nut to

crack is the huge total of government expenditures, which is easily expansible but all too hard to contract. While opportunities for economies in local government operation are by no means lacking, especially as regards duplicating and overlapping activities of the various sub-divisions – counties, towns, school districts, etc. – there is no question as to where real relief has to be sought. Because of the preponderant share of federal taxes and expenditures in the total, the only adequate remedy lies in a curtailment of non-essential federal spending, so as to leave room for the increased overall costs of local government, as well as the prospective increase in the federal budget for national defense.

Question of Federal Grants-in-Aid

Contrasting with the above approaches, some theorists hold that the solution of the problem of state and local government finances is to have the Federal Government, with its greater taxing power, collect still more of the tax revenues, but then return a larger portion to the localities as grants-in-aid for highways, public buildings, schools, relief, social welfare, etc.

This proposal, however, has four outstanding weaknesses. First, the Federal Government itself has no sources of tax income other than those existent within the states and municipalities. Second, the central government-appointed employes can never be as well-informed on local needs and desires as the localities themselves. Third, the extra handling of funds represents a substantial addition to the expense. Fourth, and most important of all, transfer to the central government of the control of funds leads to centralization of authority over how they shall be spent. The latter is contrary to the basic philosophy of our democracy – that the Federal Government be granted only limited powers, and that all other powers be reserved to the States and to the people.

Governor William M. Tuck of Virginia, writing in the October issue of "Tax Outlook", warned that:

> The practice of continuing and enlarging federal grants-in-aid bears the threat of destroying the foundations of local government and of subjugating the nation to a bureaucratic juggernaut. It shows little, if any, concern for the individual and his liberties. The initial fallacy of the entire theory of federal aid is that the funds can be dispensed by a benevolent government at Washington with little cost to the state and local governments, or to their citizens. Nothing could be further from the truth.
>
> All the funds the federal government ever had, or ever will have, came from the taxpayers of the various states. Whatever the federal government allocates as to the states comes from the people. Before this tax money comes back to the states and localities in the form of grants-in-aid, substantial tolls are exacted from it to maintain and enlarge the bureaucratic central agencies.

As long ago as 1945, the General Assembly of Indiana adopted a joint resolution declaring:

> Indiana needs no guardian and intends to have none. We Hoosiers – like the people of our sister states – were fooled for quite a spell with the magicians' trick that a dollar taxed out of our pockets and sent to Washington will be bigger when it comes back to us. We find that it lost weight in its journey to Washington and back. The political brokerage of the bureaucrats has been deducted. We have decided that there is no such thing as federal aid. We know that there is no wealth to tax that is not already within the boundaries of the forty-eight states.

The great problem in controlling federal government expenditures is to somehow bring home to the people a realization of what the consequent burden of federal taxation means to them and to their communities. The study cited here of taxes paid in Montgomery County, Ohio illustrates an effective method of tackling this problem. If other communities would make similar studies, using local figures to reveal how the facts apply to them, it would get people thinking more seriously about proposals for federal outlays, and help bring about a national demand for the same kind of wise spending and elimination of waste that they expect in the administration of their own affairs.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